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I. INTRODUCTION

Seattle citizens voted to establish an independent City Auditor in 1991. The role of the City Auditor is to provide independent information and evaluate City policies, practices and expenditures.

In contemporary democratic society, communities expect government officials and agencies to account for their use of public funds in a way that gives assurance they are using those funds efficiently and effectively to achieve desirable results. In 1991, to help meet these expectations, Seattle followed the example of many other cities and established the Finance Department with the director reporting to the Mayor and the position of an independent appointed professional City Auditor to examine the accuracy of accounts, inspect the receipt, safekeeping and disbursement of public funds, and audit the performance of City government, including its efficiency and effectiveness, both within and across City departments.¹ This new office replaced the audit function that the elected Comptroller formerly headed.

Our goal is to help the City manage and account for its use of public funds honestly, efficiently and effectively by providing citizens, the Mayor, members of the City Council, and City managers with accurate information, unbiased analysis, and objective recommendations on how to best use public resources. In our work we emphasize

- improving the City's management accountability systems critical to maintaining accurate accounts, preparing accurate records and reports, and properly safeguarding and disbursing public funds; and
- saving the City money by recommending ways the City can become more efficient and effective and by enhancing the City's efforts to use optimal public administration techniques.

To promote independence, the City Auditor receives a renewable six-year appointment subject to termination only for cause and by a majority vote of the City Council. The City Auditor determines the work program after soliciting and considering input from citizens, elected officials, department heads, and City employees.² Also, the City Council has given the City Auditor the power to compel City departments to supply access to all accounts and records.

We consist of a diverse group of professionals, well versed in financial and performance auditing.³ Our educational backgrounds include accounting, finance, law, and public and business administration. Our work experience includes public accounting, auditing, private business, and federal, state and local government. We are committed to performing high quality work which is objective, independently derived, accurate, timely, meaningful and presented in a way most useful

¹ Article VIII (Section 2) of the City Charter and Chapter 3.40 of the Seattle Municipal Code establish the role of the Office of City Auditor.

² Resolution 28780 was adopted August 23, 1993 by the City Council to formalize the independent audit selection process.

³ Addendum A provides a list of staff and their certifications and educational backgrounds

to City officials. We adhere to the demanding professional requirements that the United States Comptroller General has prescribed for governmental auditing. These standards govern the placement of audit function, scoping and planning of work, determining a review's objectives, describing audit scope and methodology, selecting criteria for evaluating the subject matter, and ensuring that evidence is sufficient, accurate, and relevant. According to generally accepted government auditing standards (GAGAS), the appointed City Auditor reporting to a legislative body is independent for purposes of conducting financial, financial-type and performance audits. (See Addendum B for excerpt of GAGAS standards.)

Audits and program reviews constitute the principal work of our office. Since our inception in 1993, we have completed 50 major audits and program reviews, generally large-scale projects lasting between 4 and 12 months and sometimes involving multiple departments. At the completion of an audit or review, we issue a written report discussing the objectives, scope and methodology of the work we performed, the results of our work, and our recommendations. After a review, we also brief the Mayor, the appropriate City Council committee, and department officials on our findings and recommendations. All formal audits are publicly presented before City Council and announced on Council agenda. We also make our work available to the local media and interested citizens through our distribution list, the library and City Clerk's Office. Finally, our web page makes all of our work available on-line through the Internet. (See Addendum C for copy of City Auditor web page.)

In addition to performing audits and program reviews, we

- assist City departments through consultative services, making available our expertise in accounting, auditing, program reviews and management accountability systems;
- publish a newsletter, Performance Perspective, to highlight general management principles or to disclose successful, useful or problematic program management; and
- provide departments with training seminars on management accountability systems and contract management, and continue to provide a speaker on management accountability systems at each orientation program for new supervisors, and a one-day unit for the City's Achieving Managerial Proficiency program.

II. IMPROVING THE CITY'S MANAGEMENT ACCOUNTABILITY SYSTEMS

Management Accountability Systems are those elements of an organization (including its resources, systems, processes, culture, structure and tasks) that, taken together, support people in the achievement of the City's objectives. These objectives fall into one or more of the following categories:

- *Effectiveness and efficiency of operations. This category includes objectives related to achieving the City's goals, such as serving customers, using resources efficiently, safeguarding resources from inappropriate use or loss, meeting social obligations, and identifying and managing liabilities.*
 - *Reliability of internal and external reporting. This category includes objectives related to such matters as the maintenance of proper accounting records, the reliability of information City officials and interested third parties use, and the protection of records against the concealment of theft and the distortion of results.*
 - *Compliance with applicable laws and regulations and internal policies. This category includes objectives related to ensuring that the City conducts its affairs in accordance with legal and regulatory obligations and internal policies.*
-

Importance of Management Accountability Systems

The success or failure of public programs often rests on the quality of the management accountability system. With a good system in place, public managers and decision makers have reasonable assurance that public programs will meet their goals and that public moneys will be spent appropriately. Without a good system for management accountability, managers have little such assurance, and the quality of programs suffers. For this reason, we have focused a great deal of our efforts on improving departments' management accountability systems.

Present Status of the City's Management Accountability Systems

Overall, we have found that the City could greatly strengthen its management accountability systems. Both the City's financial internal control systems and its programmatic control systems have considerable room for improvement. In regard to financial internal controls, we have found that department managers need to do a better job of separating duties, performing sufficient supervisory reviews, and improving the reconciling of accounts to ensure accurate reporting. In regard to programmatic control systems, department managers particularly need to thoroughly reassess their processes periodically to determine whether the programmatic controls they have built into these processes give reasonable assurance the processes will accomplish their intended goals.

- Segregation of Duties. Our audits have often identified areas where separation of duties can be strengthened. A good management accountability system segregates key duties to ensure that a single individual does not have all the responsibility for authorizing, processing, recording and reviewing financial transactions. Without segregation of key duties or some compensating controls, errors, irregularities and misappropriations can occur. Segregation of duties is particularly crucial in functions that control such City assets as cash or inventory. Typical of the problems we find in this regard is the finding of a recent audit that the Transfer Station Billing Section of Solid Waste did not appropriately segregate the responsibilities for handling transfer station accounts receivables. The same person who received the customer payments and prepared deposit transmittals also entered the cash-receipt payments in the customer accounts. Under such an arrangement that person could pocket a customer payment and conceal the theft by crediting the customer's account.
- Supervisory Review. In a number of audits, including those of the Purchasing Section, the Freeway Park Garage and the Animal Control Section, we have found that an inadequate level of supervisory review has led to significant problems. At Animal Control, for instance, the lack of sufficient supervisory review allowed an employee to keep cash payments he received for animal licenses over a number of years. The City's culture encourages empowering and trusting employees, and we strongly endorse these concepts. However, even a system that empowers and trusts employees should not overlook the valuable role of supervisory review.
- Account Reconciliation and Accurate Reporting. In our audits we have found many instances in which departments are not reconciling accounts or ensuring that reported figures are accurate. A basic function of a management accountability system is the routine reconciling of accounts to ensure reported figures are accurate. However, a recent report on surplus computers discussed a clear breakdown in this function. Of the 30 City Light surplus transactions we tested during a recent audit, we found significant inconsistencies between a) City Light's accounting system for fixed assets,⁴ b) its surplus equipment records, and c) its physical inventory records for computer hardware.
- Systematic Review of Programmatic Controls. We have not yet found department or program managers who are systematically reviewing their programmatic controls. Department managers should periodically reassess and redesign their programmatic control systems to ensure that their processes are: 1) meeting their goals and objectives; 2) complying with applicable policies, regulations, and laws; and 3) properly safeguarding City assets. Recent reports that discuss inadequate processes include
 - our review of police citations in which we found that the Seattle Police Department does not have adequate processes in place to account for how its officers use the blank tickets assigned to them by the Department, and to track whether issued tickets are legally sufficient to stand up in court; and
 - our review of the City's swimming pools in which we found that the Department of Parks and Recreation had not established controls over bank deposits to ensure that pool staff

⁴ City Light uses two systems for recording its fixed assets. The system used for recording fixed assets such as computer equipment is the Plant Inventory Masterfile (PIM).

deposited all cash receipts in City bank accounts, and to prevent missing bank deposits from going unnoticed.

The Roles of City Departments and the Office of City Auditor

The principal responsibility for management accountability systems rests with the individual City departments and the Executive. Each individual department has the basic responsibility for setting up, maintaining, and periodically reviewing its management accountability systems. The ultimate responsibility for ensuring that City programs and departments have adequate management accountability systems rests with the Executive Office.

Although more limited than the departments' roles, the Office of City Auditor's role in ensuring that the City has good management accountability systems is very significant. It includes

- teaching departments the nature and importance of good systems and assisting as requested in the design of these systems;
- reviewing departments to determine whether they are setting up, maintaining, and periodically reviewing their systems;
- providing consultative services to departments on ways to improve their management accountability systems (especially their financial controls); and
- recommending ways to improve management accountability system inadequacies we find in the course of our audits.

Work of the Office of City Auditor

Since 1994 we have had a special initiative in place to make City managers aware of the need for good management accountability systems. This special initiative consisted of three components: 1) safeguarding City's cash receipts; 2) educating managers on good management accountability systems; and 3) integrating management controls into our audit reviews. We began our initiative with a memo to the Mayor, members of the City Council and department heads (see Addendum D). Since then, we have

- identified and are strategically reviewing all City cash handling sites,
- conducted educational activities, and
- reviewed management accountability systems in the course of most of our 1995-97 audits.

Safeguarding City's cash receipts. The Office of City Auditor has put into place a comprehensive and systematic review of all cash handling sites in the City and is assessing the management controls in place to safeguard against theft. The work started with a review of the Parks and Recreation Department's nine swimming pool sites and Seattle Public Utilities' north and south transfer stations. During our review we found that management controls over cash receipts were weak and provided opportunity for cash to be mishandled. To facilitate our work,

the Council passed a resolution requiring all cash handling sites to biannually submit to our Office a Cash Handling Self-Assessment Questionnaire. This questionnaire serves the dual purpose of 1) educating managers on quality cash handling procedures and ensuring regular management review of these systems; and 2) allowing our Office to systematically and quickly provide oversight of the City's cash handling sites. (See Addendum E for more information on our cash handling initiative.)

Educational activities offered by the Office of City Auditor. We have offered a variety of courses and publications to educate City managers about management controls including a handbook, six newsletters⁵ with distribution to over 1,000 employees, and the courses:

- Management Controls and the Role of the City Auditor -- a unit in the City's New Supervisor's Orientation.
- Rethinking Management Accountability: An Introduction to Management Accountability Systems (May 1995, December 1996, and January 1997).
- Assessing and Improving Your Organization's Systems -- a one-day unit in the City's Achieving Managerial Proficiency program.
- Contract Monitoring (December 1997).

Management accountability system review. We also reviewed management accountability systems during the course of our 1995-1997 audits, including very detailed analyses of systems in the Executive Services Department's Animal Control Division and Freeway Park garage, Seattle Public Utilities' solid waste transfer stations, and the Department of Parks and Recreation's swimming pools. Our upcoming reports on the sale of the City Light building and the City's purchasing function will also include detailed analyses of the relevant management accountability systems. While conducting these reviews of management accountability systems, we worked with department managers to help them strengthen their management accountability systems. Figure 1 provides examples of management accountability improvements made during our review of the Animal Control Division.

⁵ "Auditing and Reinventing Government," "Performance Measures: Their Time Has Come," "Management Controls: A Basic Departmental Responsibility," "Handling Cash," "Creating a High Performance Program," and "Different Frameworks: Same Goals." See Addendum F for summaries.

Figure 1:

**Examples of Management Accountability Improvements that
Animal Control Made During Our Review**

- Enforcing segregation of duties between payment receipt, processing and computer input in the Pet Licensing Section to prevent individuals from pocketing payments and adjusting computer records to conceal the theft.
- Conducting independent reviews of payments and related accounting records to make sure that records are consistent with payments received for Pet Licensing, the Spay Neuter Clinic, and Animal Shelter.
- Enforcing the use of logs by Pet Licensing and the Spay and Neuter Clinic to record the receipt of payments by mail.
- Requiring consistent use of pre-numbered receipts and an independent review for intact sequence of receipts to ensure that the cash received is consistent with items sold by the Enforcement Section, the Spay and Neuter Clinic, and the Animal Shelter.
- Documenting cash balances to provide evidence of cash balances and to record the denominations of cash in the cash drawer in the Pet Licensing Section.
- Reviewing of deposit records to source documents to ensure intact deposit of sales receipts by the Animal Shelter and the Enforcement Section.
- Keeping inventory records for pet license tags and reconciliation of physical tags to sales records to ensure that the Pet Licensing Section, the Enforcement Section and the Spay Neuter Clinic account for all pet tags.
- Segregating duties between mail receiving and accounting in the Spay and Neuter Clinic.
- Restricting the endorsement of checks (for example, printing “FOR DEPOSIT ONLY” on checks received) and pre-printing fee schedules on receipts by the Enforcement Section.
- Maintaining cash register and separate cash boxes for each cashier in the Spay Neuter Clinic.

III. SAVING THE CITY MONEY THROUGH AUDITS AND REVIEWS OF OPERATIONS

*Saving the City money is one of our primary goals. In every audit and review, we examine the way the City is spending money and look for more efficient and economical ways to conduct City business. We are extremely proud that our work has had a monetary impact of **\$5.7 million** in cost savings and revenue enhancements in 1997 alone.*

Through the improvements the City Council and City departments make in response to our findings, our work produces significant financial benefits to the citizens of Seattle. Although we cannot assign a dollar value to many of these benefits (i.e., non-quantifiable benefits gained through better purchasing or property-disposal procedures), our work has saved the City \$5.7 million in measurable savings in 1997 alone. The combined measurable impact of our work over the five-year period is \$6.8 million, of which \$2.3 million is on-going savings. These savings came from reducing expenses and losses, obtaining payment recoveries, enhancing revenue collection, and finding alternate sources of revenue. The following audits and reviews show the types of savings we realize for the City:

- Adjusted Capacity Ownership Price of the Third AC Inter-Tie. This work, which we performed in conjunction with City Light and Puget Sound Energy, examined actual construction costs versus construction costs claimed and paid. City Light will recover \$3.2 million as a result of this audit.
- Ratio of Staff-to-Managers. Prompted by this report, the City of Seattle has improved its overall ratio of staff-to-managers from 5.9 to 6.1 since 1995. This three percent increase in the average number of staff reporting to a manager allowed Seattle to realize savings of roughly \$1.5 million per year. Seattle's ratio of 6.1 staff per manager is still lower than those found in recent studies of other public and private organizations. Although management experts agree that the appropriate number of staff per manager varies with the purposes and characteristics of a particular organization, they also believe higher ratios of staff-to-managers are more efficient than lower ratios. Further improvements in this ratio will provide the City even greater savings as managers systematically and thoughtfully redesign their organizational structures. To raise this ratio, we recommended that each department review management positions and identify which functions may benefit from increasing the ratio of staff-to-managers.
- Citywide Collection of Accounts Receivable. As a result of our review, the City Council has implemented an ordinance to allow departments to charge interest and penalties. Many City departments have used our recommendations to improve both their collection processes and their collection rate on delinquent accounts. During our review, we conservatively estimated that the City could potentially collect over \$800,000 per year in interest payments if it charged interest on private individual and commercial delinquent accounts receivables.
- Bumbershoot: Market Forces Could Improve City Finances. In this report, we recommended that the City pursue ways of sharing the financial risk for producing the Bumbershoot Festival.

Implementing these recommendations saved the City \$109,000 in 1994. This report served as impetus for the City devolving the Festival to a private non-profit.

- Management Improvements at Freeway Park Garage. Audit staff worked closely with the Department of Administrative Services to improve the management accountability system at Freeway Park Garage. After the Garage implemented our recommendations, its revenues increased and it was able to account for the cash receipts appropriately.
- Seattle Can Reduce Long Distance and Cellular Telephone Charges. This report noted that the City could reduce its long distance and cellular telephone charges 8 to 10 percent (a savings of approximately \$65,000) by providing stronger supervisory oversight of employees' personal use of City telephones.
- Department of Finance Taking Steps to Improve Internal Controls over Citywide Travel Expenditures. This report showed that the City was unnecessarily paying high rates for accommodations because employees were not requesting government rates when traveling.
- Contracting for Court Services. The report showed how the City could save \$900,000 by merging municipal court functions with the Seattle Division of the King County District Court. The regional justice committee is now reviewing this issue.

Even some of our smaller projects have saved the City money. For example, our review of the

- contract change orders and amendments resulted in an immediate recovery of \$74,000;
- City's broker commission account made \$71,000 available for general risk management purposes;
- Duwamish Inter-Modal Transportation Study resulted in a \$60,000 savings;
- Priest Rapids and Wapum Dam contract identified overpayments which should result in a \$15,000 recovery for City Light; and
- Bridge Seismic Project and Inter-modal Transportation Terminal Project identified almost \$5,000 savings in consultant overhead charges.

IV. SAVING THE CITY MONEY BY ENCOURAGING CITY DEPARTMENTS TO USE OPTIMAL PUBLIC ADMINISTRATION TECHNIQUES

Effective public administration techniques often focus on making government more responsive, more accountable, and less costly. Whether by creating a more entrepreneurial culture or by devising means to better articulate objectives and measure accomplishments, public jurisdictions know that their citizens will continue to ask them to do more with less.

The Office of City Auditor has a special role to play in encouraging and enhancing the efforts of City officials and employees to find and use the best public administration techniques -- both the time-tested and the innovative -- to increase the accountability, productivity and effectiveness of City government. Exemplifying our efforts in this regard is the work we have done to enhance performance measures, managed competition and self-assessment of management accountability systems (through both workshops and questionnaires). In performing this role, we have issued reports and newsletters on these issues and participated on City task forces.

- **Performance Measures.** Regular performance measurement and reporting helps identify opportunities for improving services; makes management more attentive to results, and allows management, legislators and citizens to better assess how well managers are translating legislative vision into concrete action. To bolster the City's efforts to use performance measures, we issued a newsletter, "Performance Measures: Their Time Has Come," and a report, Focus on Performance. Our newsletter described why jurisdictions around the world have embraced performance measures. Our report pointed out that Seattle will need to address and resolve a number of inherent difficulties in integrating performance reporting and performance measures into standard public administration practice. Those difficulties include getting agreement on program objectives, valuing qualitative information, building a relationship between the budget and performance measures, and developing good information systems. Our report recommended that the Office of Management and Planning emphasize both top-down and bottom-up performance measures as means for the City to articulate, measure, and report on program goals. We also recommended that Seattle play an active role in the development of national and state performance measures and develop its performance measures using the framework and terminology which the Government Accounting Standards Board is developing for service efforts and accomplishments.
- **Managed Competition.** Managed competition calls for carefully comparing the costs and benefits of contracting with private business or another governmental entity for services against the costs and benefits of providing the service in-house. In contrast to privatization, managed competition does not assume that private business can always do a better job of providing services. Our report, Making Effective Use of Managed Competition, encouraged City departments to use managed competition more extensively. Of the 67 services which we identified as good candidates for managed competition, departments were only reviewing in-house to outside costs for 23 services. The report also reviewed the experiences of other cities to focus attention on elements critical to successfully implementing a managed

competition program. Examples include a) ensuring a thorough analysis of legal issues and of costs and benefits (including non-financial factors); b) developing and implementing appropriate internal controls; and c) fostering labor-management cooperation.

- **Control Self-Assessment Workshops and Questionnaires.** By encouraging and assisting managers to regularly and effectively reassess their management accountability systems, we have an effect on department's management accountability systems that goes well beyond the limited number of individual audits we can perform each year. To accomplish this, we have led facilitated control self-assessment workshops and provided control self-assessment questionnaires to City departments. The facilitated control self-assessment workshop is a leading-edge structured process that taps the collective knowledge of employees and managers to provide reliable, quantitative information about how well a function's controls and processes are achieving the function's objectives. It encompasses both results and productivity objectives as well as objectives for financial reporting and legal compliance. In reviewing the strengths and weaknesses of the controls in place, it alerts management to opportunities for improvement.

We also have begun to offer departments an opportunity to perform guided self-assessments of their management accountability systems through standardized questionnaires. These self-assessments require departmental staff to evaluate their own systems and identify opportunities to strengthen their processes. To date, we have published a self-assessment instrument for the review of cash handling systems and have drafted two instruments for computer systems. One evaluates the process of acquiring a new computer system. The other evaluates an existing computer application to ensure that the data it produces is accurate and complete. We anticipate making these two self-assessment instruments available for departments use by early 1998.

For a complete list of Audit projects, see Addendum F.

V. TRACKING IMPLEMENTATION OF AUDIT RECOMMENDATIONS

City departments receive numerous financial and management audits from a variety of sources, including the Office of City Auditor, the State Auditor's Office, and certified public accounting firms. These audits address a mix of financial and performance issues. Financial audits focus on the adequacy of financial statements,⁶ financial systems (for example payroll), financial accounting (for example, contracts and grants), and financial controls (especially those for preventing and detecting fraud). Performance audits examine whether an organization is operating economically and efficiently (for example, without duplication of effort or performance of work that serves little or no purpose). Management audits, a special type of performance audit, review both performance and compliance with established laws, regulations or policies (for example, whether program participants are meeting pre-established criteria for participation). Many audits include both financial and performance elements.

Audits include recommendations for improving the functions under review, whether through strengthening management processes, increasing efficiency and productivity, or ensuring compliance with policies and procedures. Recently, we have worked collaboratively with the managers and staff of the functions and programs being audited to develop an executive action plan to address audit findings. Bringing managers and staff into the solution process appears to lead to both better solutions and quicker and more enthusiastic implementation.

Because of the large number of audit recommendations and action plan items developed each year, individual recommendations can easily get lost in the shuffle over time. To follow up on past recommendations, the Office of City Auditor has set up a comprehensive system of tracking to ensure recommendations are implemented.

In 1994 and 1996, we published large Citywide reports to track and discuss the status of audit recommendations.⁷ In 1997, we decided instead to issue a series of newsletters, entitled *Improvements!*, to highlight the status of audit recommendations for a single department or a single issue. The first two *Improvements!* summarized how Accounting Services and the Transportation Department have responded to audit recommendations. Overall, in tracking audit recommendations, we find that departments implement roughly 50 percent of audit recommendations shortly after an audit, eventually implement another 35 percent, and ultimately find 15 percent of the recommendations unnecessary due to other changes made in their organization after the audit.

⁶ including compliance with applicable laws and regulations for those transactions and events that may have a material effect on the financial statements.

⁷ Annual Status of Audit Recommendations, October 31, 1994 and Department Progress in Implementing Audit Recommendations, February 14, 1996.

VI. CONSULTATIVE SERVICES

The consultative services we regularly provide to City departments contribute significantly toward our goal of improving City government. We encourage all City managers and employees to call us for advice and assistance, particularly in regard to management controls and financial and accounting questions. During the past five years, the more than 50 significant consultations we have provided to City departments included such services as

- determining the appropriateness of civic contributions (City Light),
- reviewing contracts (such as the Bridge Seismic Project and the Inter-Modal Transportation Terminal Project),
- reviewing the Voter's Pamphlet contract with King County (Ethics and Elections Commission),
- reviewing the appropriateness of the Bus Pass Subsidy program and of investment policies (Finance Department),
- reviewing the design of the Citizen Surveys project and of the Performance Measures project (Office of Management and Planning),
- determining the adequacy of internal controls for the Remote Automated Payment System (multi-departmental project),
- reviewing cash-handling controls for the "Bite of Seattle" (Seattle Center),
- addressing contract issues and evaluating a CPA firm (Water Department),
- assessing fleet management risks (Department of Administrative Services) and internal control system risks (Office of Public Defense)
- evaluating cost methodology (Labor Task Force),
- reviewing internal controls for the Human Resource Information System (Personnel and Department of Finance),
- evaluating the process for selecting CPA firms (Department of Administrative Services),
- working with the Treasury Department to improve cash handling and prevent duplicative warrants, and
- collecting data for the apprenticeship task force.

In addition, as we have already discussed, we regularly provide training in management accountability systems to department managers and staff.

VII. EVALUATING OUR PERFORMANCE

In addition to evaluating the performance of other City departments, we evaluate our own performance. To do so, we use a variety of methods, with a particular emphasis on the results we achieve and on customer satisfaction.

To evaluate our performance we consider a variety of factors, including the results we have achieved, level of customer satisfaction attained, findings of our triennial external quality review, and recognition the Office of City Auditor has received within the national and international audit community. Because our overriding goal is to enhance the City's ability to provide efficient and effective services to the citizens of Seattle, we pay particular attention to the extent to which our work leads to improvements in the City's management accountability system, and saves the City money. We have already described the results we have achieved in these areas. In addition to monitoring how well we are attaining these broad-scale goals, we attempt to gauge customer satisfaction by

- scheduling meetings with citizens to discuss our performance and generate audit areas;
- providing customer questionnaires with each audit report and to each training participant;
- regularly discussing our performance with members of the City Council, Mayor's Office, and department officials;
- periodically reviewing departmental willingness to implement our recommendations;⁸ and
- monitoring the extent to which departments request our consultative and training assistance and the extent to which our educational newsletters generate requests for additional information.⁹

In 1997, our office underwent a vigorous external quality control review to determine if our practices complied with the Government Auditing Standards. This two-phase review started with an examination of individual projects to determine if they adhered to the Standards established by the U.S. General Accounting Office including appropriate supervision and proper documentation of facts. The review team for the individual projects included auditors from the City of Santa Fe, New Mexico; City of Kansas City, Missouri; and Whatcom County, Washington. The second phase was a review of our management accountability system in regards to professional proficiency, independence, due professional care, quality control, planning and supervision. The review team for the second phase included auditors from Santa Fe, New Mexico and Orlando, Florida. The review teams concluded that we suitably designed our management accountability systems to provide reasonable assurance that our work followed applicable government auditing

⁸ Besides serving as a measure of customer satisfaction, this also helps measure the extent to which our reports are providing sufficient evidence to convince departments of the validity and significance of our recommendations.

⁹ Because we believe information on customer satisfaction is so important for evaluating performance, we are currently looking for ways to measure customer satisfaction more fully and plan to include more detailed information on customer-satisfaction in future reports.

standards, and commended us for our strong practices including our skilled, innovative and impacting work, independent from political pressures. In addition, we were commended for our strong esprit de corps in which all staff members feel they are part of a meaningful team in which management is viewed as “supervisors not superiors.”

VIII. EXTERNAL RECOGNITION

A final measure of our performance comes from the recognition our work receives in the national and international audit community. Particularly gratifying to us are indications that, within just five years, we have become one of the premier audit offices in the country.

- The City Auditor, Nora Masters, serves on the Comptroller General's Advisory Council on Government Auditing Standards (as one of only two local government auditors appointed)¹⁰ and on the national boards of the Institute of Internal Auditors and the National Association of Local Government Auditors.
- Both our Office and work has been featured in the National Association of Local Government Auditors Journal, and various publications of the Institute of Internal Auditors.
- Other local government audit offices regularly request our advice and assistance.
- We conduct peer reviews of other local government audit offices at their request, including Multnomah County, Oregon; San Jose, California; and Kansas City, Missouri.
- We have filled numerous speaking engagements at the Inter-Governmental Audit Forum, the Institute of Internal Auditors, the Association of Government Accountants, the National Association of Local Government Auditors, and the American Society of Public Administration.
- We have received recent invitations to lead workshops in Finland on our audit techniques and approaches¹¹ and to speak on our audit techniques and approaches at the Congress of Internal Auditing in Turkey.¹²

¹⁰ Under our current office policy, staff members may not use City money for travel outside of the United States and must use their personal time in speaking at national or international events.

¹¹ in February 1998, at the request of the Association of Finnish Local Authorities, the organization that conducts audits of local governments in Finland.

¹² in May 1998.

IX. ADDENDA

Addendum F

Office of City Auditor Work Synopsis

From 1993 through 1997, we completed 50 major projects and published 6 newsletters, provided consulting services to departments on more than 50 occasions, and held a number of training sessions. We will be completing three additional major projects in January 1998 including a performance and compliance audit of the Executive Services Department (ESD) Purchasing Services, and a review of the sales transaction of the City Light Building, and we are working on a City-wide financial indicators report with ESD. In addition, audit staff assisted City departments with a variety of projects, including advising them on management accountability systems and accounting and auditing issues. Our work include projects which are primarily financial-related, projects which are primarily performance-related, and projects with substantial financial and performance elements. As the following table shows, 46 percent of our work was primarily financial-related, a 32 percent performance-related, and 22 percent with substantial elements of both financial and performance elements.

	Financial	Performance	Both	Total
Major Reviews	24	14	12	50
Newsletters	2	4	0	6
All Completed Projects	26	18	12	56
Percent of Total	46%	32%	22%	100%

Major Projects By Departments

GENERAL FUND DEPARTMENTS

Department of Construction and Land Use

- DCLU: Revenue Collection Process (September 1, 1993). Department of Construction and Land Use (DCLU) needs to improve its management and internal controls over its revenue transactions. Improvements should include adequately segregating duties; reconciling revenue information to actual cash receipts; ensuring security over the financial records; and billing accounts in a timely manner.

Executive Services Department

- Department of Finance: Bond Arbitrage System (November 2, 1993). The Finance Department can improve the arbitrage reporting process by implementing additional management controls and procedures to help ensure accurate reporting and remittance of arbitrage profits.
- Finance: Review of the Insurance Broker Commission Account (December 20, 1993). Questioned the need for an insurance broker commission account, prompting the Finance Department to discontinue using it.
- Management Improvement at Freeway Park Garage (October 24, 1995). The Department of Administrative Services (DAS) should design and implement a comprehensive management accountability system over the Freeway Park Garage's cash receipt process to include reconciling cash receipts, segregating duties, recording sales, and controlling monthly parking passes, key cards and void transactions. In addition, DAS also needs to increase its management oversight of the Garage.
- Department of Finance Taking Steps to Improve Internal Controls Over City-wide Travel Expenditures (October 24, 1995). The Department of Finance can take additional steps to fulfill its responsibilities as outlined in the Seattle Municipal Code and may want to consider options for streamlining the authorization, accounting and reporting of travel and training expenditures.
- Animal Control (November 20, 1995). Animal Control needs to implement a comprehensive financial control system. Animal Control could benefit from a managed competition review in light of their decreasing workload and rising budget. It should also reconsider the need for the two additional officers added in the 1994 budget.
- Comparison of In-House Costs and Private Sector Prices for Selected Vehicle Maintenance Services (October 30, 1996). Fleet Services Division should develop a methodology for conducting comprehensive cost comparisons each biennium with vendors and other jurisdictions for services and determine ways to reduce costs and increase efficiencies to ensure its costs are competitive with private vendors. DAS should also increase the use of vendors for services where its costs cannot be reduced sufficiently to be competitive.
- Accountants Handbook (October 10, 1997). ESD's Accounting Services should work with the Summit Project group to develop a joint accounting policy and Summit financial management system procedures manual.
- Issues of Interest to the City Auditor In Development of Large Computer Applications (November 18, 1997). Document provides audit program to guide the Office of City Auditor in its auditing of the City's acquisition of large computer systems and to communicate to Departments the issues of importance to the Office. The main audit objectives include ensuring fair and thorough competition for selecting vendors, the development of proper

specifications for the system, and the appropriate safeguards to ensure that the accepted system meets the City's needs.

- Making Strategic Use of Surplus Computers (December 9, 1997). The City should institute an active role for the Chief Technology Officer in finding appropriate uses for the City's surplus computer equipment and use the e-mail and internal and external web sites to better advertise the availability of surplus computer equipment. Also, the City Council and ESD should explore with the City's Law Department the circumstances under which non-cash transfers of surplus computer equipment could be considered within or outside City government. Based upon our findings, we will be issuing in January 1998 a Fixed Asset Letter to City officials outlining our concerns in this area.
- Sale of the City Light Building (to be completed in January 1998) A review of the sale transaction for the City Light Building.
- ESD's Purchasing Services Program (to be completed in January 1998). A review of Purchasing Services' performance and compliance.

Department of Housing and Human Services

- DHHS: Oversight of Housing Rehabilitation and Development Programs (December 23, 1993). Department of Housing and Human Services (DHHS) needs to strengthen its management controls and oversight over its housing rehabilitation and development programs to ensure the program is serving those it intended.

Seattle Legislative Department

- Draft Survey of Council Structures and Functions (November 24, 1997). This project gathered comparative information about legislative departments in other local government jurisdictions throughout the United States to determine what organizational innovations or "best practices" they might offer from their experience.

Seattle Municipal Court

- Municipal Court: Oversight System in Place for Collection Services Contract (October 5, 1993). Identified improvements in billing notices and in collecting fines on rental vehicles.
- Contracting for Court Services (April 18, 1995). The City could potentially save \$900,000 a year by combining Municipal Court services with the Seattle Division of the King County District Court.

Office of Management and Planning

- Bumbershoot: Summary of Comptroller's 1991 and 1992 Findings (November 4, 1993). Several areas of risk exist in the current management structure of the Bumbershoot Festival, including inadequate oversight and accountability, financial and internal control weaknesses, and non-compliance with City codes and ordinances.
- Bumbershoot: Market Forces Could Improve City Finances (November 4, 1993). Seattle can continue to have an artistically and musically successful Bumbershoot Festival, with a multitude of art offerings, at a reduced financial cost to the City and to attendees by strengthening oversight of the Festival and by using market incentives in restructuring the Festival and in selecting and contracting with a producer(s).
- Eligibility for Public Defense (August 21, 1995). Office of Public Defense screeners appear to perform initial screenings effectively, however, they can do more to enhance the quality of the information which they gather.

Department of Parks and Recreation

- Woodland Park Zoo's Cash Receiving and Handling System (April 1993). The internal controls over cash receipts at the Woodland Park Zoo are not sufficient to ensure proper recording and adequate safeguarding of cash receipts.
- Open Space Program (February 25, 1997). Although in general, the Open Space Program has appropriate management controls that provide reasonable assurance of achieving the Program's objectives, the Program could do a better job of communicating Program accomplishments to those outside of the Department of Parks and Recreation.
- Improving Accountability Over Swimming Pools' Cash Handling (July 7, 1997). Controls at the swimming pools need to be strengthened, particularly in regards to bank deposits, accountability over cash receipts, the oversight and monitoring of cash handling, and the security at pool sites.

Seattle Police Department

- Police Department: Evidence Room (March 31, 1994). The Police Department should implement procedures to ensure that Police evidence and cash are properly and efficiently handled and safeguarded.
- Seattle Police Department: Forfeiture Funds and Investigative Fund (December 23, 1994). The Police Department needs to improve its processes to ensure proper cash handling and compliance with laws and regulations.

- Patrol Officer Deployment (December 31, 1996). On an annual basis, SPD's actual deployment of patrol officers generally matched its seasonal patrol officer deployment plans between 1991 and 1995. However, actual staffing consistently fell short of planned levels during the month of December and in the mornings.
- Seattle Police Department Controls Over Tickets (April 9, 1997). The Police Department must establish a system in coordination with Municipal Court, which combines manual and computerized tracking, to account for all tickets which officers receive and to allow periodic review of how the courts are disposing of tickets which the Department sends them; and securing books of blank tickets in a locked cabinet with limited access.
- Seattle Police Department's Management of Federal Grants for Certain Community Policing Projects (October 16, 1997). Seattle Police Department is appropriately using federal grant funding in Comprehensive Communities Program and the COPS Youth Handgun Violence Initiative.

Seattle Center

- Seattle Center: Redevelopment Levy (June 10, 1994). Seattle Center spent levy funds appropriately and complied with City policies, laws, and regulations. However, Seattle Center can improve its management controls over advertising, documenting of change orders, and amending of consultant contracts.
- Seattle Center Improving Procedures to Ensure Tenants Are Reporting All Revenues and to Ensure Consistency of Contracts (October 5, 1995). Seattle Center and our staff identified ways to improve Seattle Center's procedures to ensure tenants report all revenue and correctly calculate rents due. In addition, Seattle Center is continuing its efforts to standardize its contracts and make them consistent among the different tenants.

UTILITIES AND TRANSPORTATION

Multi-Utilities

- Utility Sole Source Consultant Contracts: Management Controls Need Strengthening (September 7, 1993). The utilities did not have effective internal control structures to ensure that sole source contracts were used only when a single consultant was available.

Seattle City Light

- Design Modifications at the South Service Center (August 1997). The purpose of the audit was to examine the design contract in light of a \$25,000 claim by the consultant. The result of the audit was that the claim was not valid.

- Review of the Strandly/Manning Environmental Restoration Contract (August 1997). Reviewed costs for this contract.
- Adjusted Capacity Ownership Price of the Third AC Inter-Tie (December 1997). The purpose of the audit was to examine actual construction costs versus construction costs claimed and paid. \$16 million of incorrect charges found (\$3.2 million is City Light's share).
- Priest Rapids and Wapnum Dam (November 1997). This audit examined 1996 charges to Priest Rapids Dam capacity ownership (Estimated \$15,000 recovery for City Light).

Seattle Public Utilities (including Seattle Engineering Department)

- Seattle Engineering Department: 1992 Reorganization, Management of Accounts Receivable and Management Reports (June 30, 1994). In reorganizing, the Engineering Department was able to exceed its expectations in reducing staff levels, resulting in savings of over \$600,000 annually. The Engineering Department needs procedures to ensure that its accounts receivable are appropriately monitored, controlled, and accounted for; and to ensure management reporting capabilities are adequate.
- Transfer Stations Cash Handling Operations (February 28, 1997). Management could strengthen supervisory monitoring of the cash-handling system to reduce transaction errors and to ensure that accounting functions which are typically segregated are.
- North Duwamish Intermodal Access Project (May 23, 1997). The purpose of the audit was to review provisional indirect billing rates and proposed expenses for eleven consultants. The review resulted in a \$60,000 savings.
- Control Self-Assessment (on-going).

Seattle Transportation Department

- Transportation Financial Management: Revenue Forecasting and Expenditure Management are Improving (November 5, 1996). The Transportation Division's capital budgeting process did not make full use of available local funds each year because it did not recognize the effect of project delays and project cost savings. The Division should better track funds freed by under-spending on capital projects during the fiscal year, and budget more projects in fiscal year in order to accomplish more projects as funds become available.
- Transportation Expenditures: Compliance and Controls are Good but Can Be Improved (November 5, 1996). Overall, the Transportation Division spends Local Option and Gas Tax revenues in compliance with applicable laws and regulations and is accurately reporting these expenditures. However, we identified several improvements which would improve Transportation's processes.

GENERAL OR MULTI-DEPARTMENT

- Accountability in City Government (March 31, 1994). The Office of City Auditor's first status report emphasizes management controls, saving money and making City government more effective.
- Seattle Can Reduce Long Distance and Cellular Telephone Charges (September 16, 1994). The City can save on its long distance and cellular telephone charges by requiring authorization codes and having employees and supervisors review telephone bills for personal calls made by employees and fraudulent use.
- Focus on Performance (September 16, 1994). Challenges the City to use performance measures while identifying the fundamental challenges of integrating performance measures into public administration.
- Annual Status of Audit Recommendations (October 31, 1994). This report centrally compiles all of the 185 audit recommendations for the City departments made by the Office of City Auditor, State Auditor's Office, independent certified public accounting firms, and the previous Comptroller's Office. Departments reported that they have implemented or would implement 68 percent of the recommendations by the end of 1994.
- Making Effective Use of Managed Competition (January 11, 1995). Of 67 services identified as good candidates for managed competition, City departments were only performing cost comparisons on 23. To implement managed competition successfully, Seattle needs careful analysis, appropriate management controls, recognition of non-financial factors, and labor management cooperation.
- City-wide Collection of Accounts Receivable (May 17, 1995). The amount of receivables over 90 days old is significant, but City departments only sporadically use interest and/or late fees as an incentive for timely payment. City departments should improve their collection practices over delinquent accounts receivable and strengthen their internal controls over accounts receivable to prevent the potential loss of City funds. Also, City departments should develop effective monitoring tools, such as management reports. In addition, the Department of Finance should provide more guidance to departments on collection of accounts receivable.
- Striving for Efficiency and Effectiveness (January 11, 1996). Office of the Auditor's second status report on major accomplishments and performance.
- Department Progress in Implementing Audit Recommendations (February 14, 1996). This report provides the status of all audit recommendations made since 1990 which had not been closed in previous status reports. In total, it provided the status of 230 recommendations represent 42 separate audits performed by the Seattle Office of City Auditor and others.
- Ratio of Staff to Managers in City Government (January 25, 1996). Seattle's ratio of staff to managers suggests that the City could benefit from a thorough, systematic review of its

management positions and the formal and informal policies which influence the number of staff per manager.

- Information Technology: Dollars and Challenges (September 11, 1996). Over the next few years, the City will need to move from the more narrow confines of information technology, with its focus on data processing and computer systems, into the broader world of information management. The broader world encompasses all creating, collecting, disseminating, and using of information. Such a move could reduce the City's costs of managing information and enable the City to more effectively meet its key business objectives.
- City Responds Favorably to Ratio of Staff to Managers in City Government (October 7, 1997). This report assesses the City's progress in implementing the recommendations from our report, "*The Ratio of Staff to Managers in City Government*," January 25, 1996. Seattle's overall average ratio of staff to managers has risen from 5.9 to 6.1 since 1995 -- a three percent increase in the average number of staff reporting to a manager. This has allowed Seattle to realize significant savings, estimated at roughly \$3.1 million. However, the City has room for further improvement and additional savings.
- City's Management of Contract Amendments and Change Orders Needs Improvement (November 6, 1997). City departments need to improve their management of A&E consultant contract amendments to ensure that the amounts the City pays for these services are fair and reasonable and the City needs to provide more oversight and better coordination of departmental efforts to control A&E consultant contract compensation. In addition, departments do not have a means of coordinating information on contractor rates. Significant weaknesses also exist in the City's administering of change orders for construction contracts. One immediate short-term impact was City Light and SPU reviewed invoices on two separate design contracts in the audit sample and respectively, received a \$24,000 and \$50,000 refund based on over charges.
- Contract Compliance Audit of the Filipino Community of Seattle (December 26, 1997). This report looked at the Filipino Community of Seattle's compliance with its contractual requirements of the Filipino Youth Empowerment Grant issued by the Department of Neighborhood on July 15, 1995 and the Filipino American Youth Media Production Grant issued by the Department of Housing and Human service on July 17, 1995.

Newsletters

Our newsletter distribution list is well over 1,000, which includes City department heads, City managers, and other interested employees and citizens.

- Auditing and Reinventing Government (December 1, 1993) describes how the goal of reinventing fits well with the Office of City Auditor's mission to help the City achieve honest, efficient management and full accountability throughout City government. Reinventing government makes government more responsive, effective and less costly by creating an entrepreneurial environment with intense emphasis on results.
- Performance Measures: Their Time Has Come (May 12, 1994) describes the efforts to use performance measures in the public sector and how they can help make Seattle more results oriented.
- Management Controls: A Basic Departmental Responsibility (October 31, 1994) provides information on management and internal controls and emphasizes managers' responsibility to ensure their functions have appropriate management controls.
- Handling Cash (December 29, 1995) emphasizes the importance of good cash handling procedures and provides a checklist to help Departments review their cash handling procedures.
- Creating a High Performance Program: The Performance Framework (November 8, 1996) discusses the use of a performance framework to systematically and simultaneously work towards the goals of reducing costs, increasing accountability, measuring performance, streamlining, reinventing, and continuously improving.
- Different Frameworks: Same Goals (March 7, 1997) focuses on five frameworks which organizations are using to improve their organizations including Peter Senge's Deep Learning Framework, the criteria for the Malcolm Baldrige awards, and COCO criteria, the COSO criteria, and the Canadian Twelve Attributes.